

Message Text

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ACTION TRSE-00

INFO OCT-01 AF-10 NEA-10 ISO-00 AID-05 CIAE-00 COME-00
EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02
OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05
SS-15 STR-04 CEA-01 DODE-00 PM-04 H-01 L-03
PA-01 PRS-01 AGRE-00 /099 W
-----024756 011749Z /44

R 011423Z JUL 77
FM AMEMBASSY RABAT
TO SECSTATE WASHDC 2383
INFO AMEMBASSY ALGIERS
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY NOUAKCHOTT
AMEMBASSY TUNIS

C O N F I D E N T I A L SECTION 1 OF 2 RABAT 3606

DEPARTMENT ALSO PASS TREASURY FOR MR. ROBERT BLAKE

E.O. 11652: GDS
TAGS: ECON MO
SUBJECT: MOROCCAN ECONOMY AT MID-YEAR

REF: (A) RABAT 416, (B) STATE 136707

1. SUMMARY. PUBLIC SECTOR INVESTMENT, LARGELY
EXTERNALLY FINANCED, CONTINUES TO FIRE AN OTHERWISE
LAGGARD MOROCCAN ECONOMY AGAIN THIS YEAR. A THIRD
POOR CEREALS HARVEST (OUT OF THE PAST FOUR) WILL
REQUIRE RECORD IMPORTS, BUT SHOULD BE COUNTERBALANCED
BY MASSIVE GOVERNMENT CAPITAL EXPENDITURES ASSISTED
BY INCREASED TOURIST RECEIPTS, MODERATELY RISING
WORKER REMITTANCES, AND STEADY GROWTH IN THE MODEST
INDUSTRIAL SECTOR. PHOSPHATE REVENUES ARE PREDICTED
TO RISE, IF AT ALL, ONLY MODERATELY. AVERAGE
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EXPORT GROWTH SO FAR THIS YEAR WAS CHARACTERIZED
AS QUOTE VERY TIMID UNQUOTE BY MINISTER OF FINANCE
BENSLIMANE IN HIS JUNE 27 SPEECH TO THE QUARTERLY
MEETING OF THE BANK CENTRAL CREDIT COMMITTEE. EXTERNAL
DEBT WILL BE UP AGAIN, THOUGH FAR LESS THAN WOULD HAVE
BEEN THE CASE WITHOUT THE GENEROUS ASSISTANCE PROVIDED
BY FRIENDLY ARAB STATES. DESPITE FOREIGN LARGESSE,

DOMESTIC CREDIT REMAINS TIGHT BUT HAS NOT YET PROVED TO BE A MAJOR CONSTRAINT ON ECONOMIC DEVELOPMENT. REAL GROWTH IN GDP WILL BE DOWN MARKEDLY FROM THE 10 PERCENT ACHIEVED LAST YEAR TO PERHAPS 3 TO 5 PERCENT. INFLATION WILL REMAIN A PROBLEM, BUT THE SERIOUS SOCIAL UNREST FORESEEN BY SOME AS A CONSEQUENCE OF RISING PRICES HAS NOT MATERIALIZED. END SUMMARY.

2. SECTORAL PERFORMANCE (ALL RATES OF GROWTH IN REAL TERMS).

A. IN A NORMAL YEAR, THE AGRICULTURAL SECTOR IN MOROCCO CONTRIBUTES A QUARTER OF GDP AND EMPLOYS UPWARDS OF 60 PERCENT OF THE ECONOMICALLY-ACTIVE POPULATION. WITH CEREALS PRODUCTION DOWN THIS YEAR SOME 40 PERCENT DUE TO DROUGHT, IT NOW LOOKS LIKE OVERALL AGRICULTURAL OUTPUT MAY FALL FROM 10 TO 15 PERCENT FROM LAST YEAR'S ABOVE AVERAGE YIELDS, RESULTING IN A NET NEGATIVE IMPACT ON OVERALL GNP OF 3 TO 4 PERCENT. THE GRAIN SHORTFALL WILL LEAD TO RECORD IMPORTS, LUCKILY FOR MOROCCO DURING A PERIOD OF HIGH WORLD GRAIN PRODUCTION AND CONSEQUENTLY LOW PRICES.

B. FOLLOWING 1974 BOOM, '75 BUST, AND MODEST 1976 RECOVERY, PHOSPHATE INDUSTRY SHOWS PROMISE OF NO MORE THAN MARGINAL GROWTH IN PRODUCTION AND EXPORT RECEIPTS
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DURING LAST HALF OF 1977, DESPITE ACTIVE SALES PROGRAM AND A SUBSTANTIAL PENETRATION OF US MARKET AS A RESULT OF A LARGE MEDIUM-TERM SALES CONTRACT WITH BEKER INDUSTRIES. AVERAGE PHOSPHATE ROCK PRICE PER TON IS UNLIKELY TO EXCEED BY MUCH LAST YEAR'S LEVEL OF \$33.50. DUE TO SUBSTANTIAL STOCKPILING OF ROCK LAST YEAR, PHOSPHATE PRODUCTION LEVEL FELL SLIGHTLY DURING THE FIRST QUARTER OF 1977. MINING, WHILE NOT LIKELY TO CONTRIBUTE MUCH TO GNP GROWTH, WILL NEVERTHELESS NOT BE THE BIG LOSER IT WAS LAST YEAR.

C. INDUSTRY, COMMERCE, TRANSPORTATION AND ENERGY WHICH TOGETHER ACCOUNT FOR AROUND HALF OF GDP HAVE EACH GROWN AT APPROXIMATELY 5 TO 7 PERCENT ANNUALLY DURING THE PAST FIVE YEARS AND WILL PROBABLY CONTINUE THIS STEADY BUT UNSPECTACULAR PROGRESS THROUGHOUT 1977, CONTRIBUTING AROUND 3 PER CENT TO OVERALL GDP GROWTH.

D. TRUE MOTOR OF GROWTH IN 1977, AS IN 1975 AND 1976, WILL BE PUBLIC INVESTMENT, CONCENTRATED IN THE CONSTRUCTION AND PUBLIC WORKS SECTORS. WHILE THESE ACCOUNTED FOR ONLY 11 PERCENT OF GNP IN 1976, THIRTY PERCENT

GROWTH RATE MADE IT THE ECONOMY'S MOST SIGNIFICANT GROWTH POINT. GIVEN AMBITIOUS 1977 CENTRAL GOVERNMENT BUDGET, CONSTRUCTION GROWTH RATE MAY WELL BE EXCEEDED IN 1977, ADDING THREE PERCENT PLUS TO GLOBAL EXPANSION OF GDP RANGING FROM 3 TO 5 PERCENT.

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C O N F I D E N T I A L SECTION 2 OF 2 RABAT 3606

DEPARTMENT ALSO PASS TREASURY FOR MR. ROBERT BLAKE

3. EXTERNAL FINANCE. MUCH OF FINANCING FOR EXPANSIVE PUBLIC INVESTMENT PROGRAM MUST BE RAISED EXTERNALLY. REF A REPORTED TOTAL FOREIGN FINANCING NEEDS OF AROUND \$1.3 BILLION (DISCOUNTED FOR OVERSTATEMENT OF ABSORPTIVE CAPACITY) AND PROVIDED EARLY LOOK AT PROBABLE SOURCES. AT MID-YEAR, WE CONSIDER FIGURE MUST BE INCREASED BY APPROXIMATELY \$100 MILLION TO COVER INCREASED GRAIN IMPORTS, RAISING THE TOTAL EXTERNAL FINANCING NEED TO 1.4 BILLION. UPDATED BEST ESTIMATES OF SOURCES OF THIS FINANCE ARE AS FOLLOWS:

SAUDI ARABIA \$500 MILLION

OTHER ARAB SOURCES \$200-300 MILLION

IBRD \$170 MILLION

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OCP EUROBORROWING \$200 MILLION

BNDE LOAN \$50-100 MILLION

FRANCE \$80-100 MILLION

US (INCLUDING ESTIMATED \$26 MILLION
\$9M IN PL-480 TITLE I)

AID FROM OTHER NON-ARAB DONORS \$25 MILLION

TOTAL \$1250-\$1420 MILLION

ACCORDING TO CENTRAL BANK CONTACT, NO MAJOR QUOTE
KINGDOM OF MOROCCO UNQUOTE LOAN WILL BE SOUGHT DURING
SECOND HALF OF 1977 DESPITE EARLIER PLANS. CONTACT
ASCRIBED THIS TO BUREAUCRACY PREOCCUPIED WITH EARLIER
LOANS, IBRD NEGOTIATIONS, WORK ON 1978-82 FIVE YEAR
PLAN, ELECTIONS AND SEATING OF PARLIAMENT. MORE LIKELY
HOWEVER ARAB GENEROSITY HAS OBIATED NEED. WE
HAVE HEARD NOTHING FOR SEVERAL MONTHS ON PROPOSED
BANKERS ACCEPTANCE SCHEME NOTED PARA 4(F) REF A.
FINANCING FOR SONASID STEEL PROJECT IN NADOR APPEARS ON
TRACK WITH A FINANCING PACKAGE INCLUDING APPROXIMATELY
40 PERCENT EQUITY AND A MIX OF SUPPLIER CREDITS AND
BANK LOANS (INCLUDING IBRD AND BNDE) FOR REMAINDER.
MAJOR IMPONDERABLE AFFECTING EXTERNAL FINANCE IS COST
OF SAHARA CONFLICT AND EFFECT OF CONFLICT ON
MOROCCO'S ACCESS TO WORLD CAPITAL MARKETS. SO FAR, COSTS
HAVE BEEN NON-TRIVIAL BUT NOT CRITICAL. THESE EXPENSES
MAY INCREASE, HOWEVER, AS THE GOM TAKES ON ADDITIONAL
ACTIVITIES IN SUPPORT OF MAURITANIA AND IF, AS WE HAVE
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HEARD, NEXT FIVE YEAR PLAN PROVIDES MAJOR SOCIAL, MINING
AND OTHER DEVELOPMENT PROJECTS FOR SAHARA. ONGOING HOSTILITIES HAVE
NOT AFFECTED KEENESS OF US AND EUROPEAN BANKERS TO
LEND.

4. DOMESTIC CREDIT

MINISTER OF FINANCE BENSLIMANE ANNOUNCED IN A JUNE 27
CENTRAL CREDIT COMMITTEE SPEECH THAT DOMESTIC CREDIT

EXPANSION WOULD BE LIMITED TO 15 PERCENT THIS YEAR. GIVEN PREVAILING INFLATION RATES, THIS MEANS THAT TOTAL BANK CREDITS TO ECONOMY WOULD REMAIN APPROXIMATELY CONSTANT IN REAL TERMS. WHILE THIS CLEARLY IMPLIES TIGHT CREDIT FOR THE REST OF THIS YEAR, FINMIN RULED OUT REPEAT OF MID-1976 CREDIT FREEZE PRECIPITATED BY OVEREXPANSION DURING FIRST HALF OF THAT YEAR. MONEY SHOULD REMAIN TIGHT BUT EXPAND ENOUGH TO PREVENT CHOKING ECONOMIC GROWTH.

5. INFLATION/SOCIAL UNREST

PREDICTION OF PRICE INCREASES AT AN ANNUAL RATE OF 15 TO 20 PERCENT CONTAINED REF A HAS PROVED ON TRACK DURING FIRST HALF YEAR, THOUGH STRIKES AND SOCIAL UNREST, WHICH MIGHT HAVE RESULTED FROM DECLINE IN LIVING STANDARDS HAVE BEEN CONTAINED--PERHAPS AS RESULT OF EIGHT-MONTH ELECTORAL PROCESS ENDING WITH PARLIAMENTARY ELECTIONS IN JUNE. PROBLEM NOT BEHIND US YET, HOWEVER, WITH FAILURE OF CEREALS CROP AND EXTREME DROUGHT IN RANGELANDS FORCING EARLY SLAUGHTER OF ANIMALS. BOTH HAVE SERIOUSLY AFFECTED RURAL INCOMES, AND EMERGENCY RURAL PUBLIC WORKS PROGRAM, FEED SUBSIDY, AND SPECIAL RURAL CREDITS ANNOUNCED BY MINAG ON JUNE 30 (SEPTTEL) SIGNAL RISING CONCERN ON PART GOM.

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